

# City and County of San Francisco

Office of the Controller – City Services Auditor

## OFFICE OF THE TREASURER AND TAX COLLECTOR:

Financial Statement Audit of the  
City Investment Pool  
July 1, 2008, through June 30, 2009

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February 17, 2010

**CONTROLLER'S OFFICE  
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Elisa Sullivan, Audit Manager



**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE CONTROLLER**

**Ben Rosenfield**  
Controller

**Monique Zmuda**  
Deputy Controller

February 17, 2010

José Cisneros, Treasurer  
Office of the Treasurer and Tax Collector  
City Hall, Room 140  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102-4638

Dear Mr. Cisneros:

The Controller's Office, City Services Auditor, presents the financial audit report of the Statement of Net Assets and Statement of Changes in Net Assets of the City and County of San Francisco (City) Investment Pool (Pool) held by the Office of the Treasurer and Tax Collector (Treasurer) as of June 30, 2009. These basic financial statements present the total cash and investments, and related activity under the control and accountability of the City's Treasurer.

This audit was performed under contract by Macias Gini & O'Connell LLP. For this contract, the City Services Auditor Division performed the department liaison duties of project management and contractor invoice approval.

Based on this audit, Macias Gini & O'Connell LLP found that the basic financial statements referred to above present fairly, in all material respects, the financial position of the City's Pool as of June 30, 2009, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Further, the Treasurer complied with the investment requirements in the California Government Code, Sections 27130 through 27137, and with the City's investment policy.

Respectfully submitted,

Tonia Lediju  
Director of Audits

cc: Mayor  
Board of Supervisors  
Civil Grand Jury  
Budget Analyst  
Public Library

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**CITY AND COUNTY OF SAN FRANCISCO  
OFFICE OF THE TREASURER AND  
TAX COLLECTOR INVESTMENT POOL**

Financial Statements with  
Independent Auditor's Reports

For the Year Ended June 30, 2009

**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE TREASURER AND TAX COLLECTOR INVESTMENT POOL**  
Financial Statements  
For the Year Ended June 30, 2009

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The Honorable Mayor Gavin Newsom  
The Honorable Members of the Board of Supervisors  
City and County of San Francisco

**Independent Auditor's Report**

We have audited the accompanying financial statements of the Investment Pool administered by the Office of the Treasurer and Tax Collector (Treasury), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Treasury's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Treasury's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Treasury and do not purport to, and do not, present fairly the financial position of the City and County of San Francisco, California, as of June 30, 2009, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Treasury as of June 30, 2009, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Treasury has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2009, on our consideration of the Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Macias Gini & Company LLP*

Certified Public Accountants  
Walnut Creek, California

December 23, 2009

**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE TREASURER AND TAX COLLECTOR INVESTMENT POOL**  
 Statement of Net Assets  
 June 30, 2009

Assets:	
Cash	\$ 80,081,516
Investments:	
U.S. Treasury securities:	
U.S. Treasury notes	294,189,536
U.S. Treasury bills	362,845,323
U.S. Agencies under U.S. government receiviorship:	
Federal National Mortgage Association Notes and Bonds	451,665,109
Federal Home Loan Mortgage Corporation Discount Notes	19,899,911
Federal Home Loan Mortgage Corporation Notes	403,445,920
U.S. Agencies not under U.S. government receiviorship:	
Federal Home Loan Bank Notes	174,965,769
Federal Home Loan Bank Floaters	179,637,031
Federal Farm Credit Bank Bonds	90,281,365
Federal Farm Credit Bank Floaters	50,046,875
Temporary Liquidity Guarantee Program Notes	504,101,094
Temporary Liquidity Guarantee Program Floaters	50,460,938
With banks and thrifts:	
Collateralized Certificates of Deposit	425,000,000
Public Time Deposits	15,300,000
Total investments	<u>3,021,838,871</u>
Interest receivable	10,822,908
Total assets	<u>3,112,743,295</u>
Liabilities:	
Outstanding checks	100,910,349
Distributions payable	<u>10,292,582</u>
Total liabilities	<u>111,202,931</u>
Total net assets held in trust	<u><u>\$ 3,001,540,364</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE TREASURER AND TAX COLLECTOR INVESTMENT POOL**  
 Statement of Changes in Net Assets  
 For the Year Ended June 30, 2009

Additions:

Additions to investment pool	<u>\$ 54,358,762,873</u>
Investment income:	
Net increase in fair value of investments	<u>5,756,776</u>
Interest	<u>79,157,629</u>
Net increase resulting from investment income	<u>84,914,405</u>
Total additions	<u><u>54,443,677,278</u></u>

Deductions:

Distributions from investment pool	54,512,420,968
Investment income distributions to participants	81,377,658
Administrative expenses	<u>6,119,352</u>
Total deductions	<u>54,599,917,978</u>
Net change in net assets	(156,240,700)
Net assets held in trust, beginning of year	<u>3,157,781,064</u>
Net assets held in trust, end of year	<u><u>\$ 3,001,540,364</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY AND COUNTY OF SAN FRANCISCO  
OFFICE OF THE TREASURER AND TAX COLLECTOR INVESTMENT POOL**

Notes to the Financial Statements  
For the Year Ended June 30, 2009

**Note 1 - Summary of Significant Accounting Policies**

The City and County of San Francisco (City) Investment Pool (Pool) is a local government investment pool with approximately \$3.0 billion in net assets as of June 30, 2009. As the banker, tax collector, collection agent, and investment officer for the City, the Office of the Treasurer and Tax Collector (Treasurer) manages the Pool on behalf of most funds of the City and external participants. Investments made by the Treasurer are regulated by the California Government Code and by the City's investment policy approved annually by the City's Treasury Oversight Committee.

These basic financial statements present only the cash on hand, cash in bank, investments, and related activity under the control and accountability of the Treasurer of the City. The financial statements are not intended to present fairly the financial position and results of operations of the City.

**Measurement Focus and Basis of Accounting**

The Statement of Net Assets and the Statement of Changes in Net Assets are prepared using the economic resources measurement focus and the accrual basis of accounting. Earnings on investments are recognized as revenue in the period in which they are earned and administrative costs are recognized as expense when incurred, regardless of the timing of cash flows. In accordance with generally accepted accounting principles (GAAP), the Treasurer records investment purchases and sales on the trade date. Pool participants' cash balances and withdrawals are based on book value (deposits, plus distributed investment income, and realized gains and losses).

**Investment Pool Participation**

The Treasurer's Pool includes pooled deposits and investments and dedicated investment funds. The dedicated investment funds represent restricted funds and relate to bond issuances of the City's enterprise funds or agency funds. The Pool also includes both voluntary and involuntary participation from entities that are not part of the City's financial reporting entity. The State of California statutes require certain special districts and other governmental entities to maintain their cash surplus with the Treasurer. The San Francisco Unified School District (school district), the San Francisco Community College District (community college district), and the City are involuntary participants in the City's Pool. As of June 30, 2009, involuntary participants accounted for approximately 95.4 percent of the Pool. Voluntary participants accounted for 4.6 percent of the Pool.

Further, the school district, community college district, the trial courts of the State of California and the Transbay Joint Powers Authority are external participants of the City's Pool. At June 30, 2009, \$569.9 million was held on behalf of these external participants. The total percentage share of the City's Pool that relates to these four external participants is 19.0 percent. Internal participants accounted for 81.0 percent of the Pool. During the fiscal year ended June 30 2009, the Treasurer has not entered into any legally binding guarantees to support the participant equity in the Pool. Further, the Pool is not registered with the SEC as an investment company.

**Investment Valuations**

Investments are carried at fair value, except for certain non-negotiable investments that are reported at cost because they are not transferable and have terms that are not affected by changes in market interest rates, such as collateralized certificates of deposits and public time deposits. The fair value of investments is determined monthly and is based on current market prices. The fair value of participants' position in the Pool approximates the value of the Pool shares. The method used to determine the value of participants' equity is based on the book value of the participants' percentage participation. In the event that a certain fund overdraws its share of pooled cash, the overdraft is covered by the General Fund and a payable to the General Fund is established in the City's basic financial statements.

**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE TREASURER AND TAX COLLECTOR INVESTMENT POOL**  
Notes to the Financial Statements (Continued)  
For the Year Ended June 30, 2009

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Investment Income**

Income from pooled investments is allocated at month-end to the individual funds or external participants based on the fund or participant's average daily cash balance in relation to the total pooled investments. Income from dedicated investments is posted directly to funds where the money is originated. City management has determined that the investment income related to certain funds should be allocated to the General Fund. On a budget basis, the interest income is recorded in the City's General Fund. On a generally accepted accounting principles (GAAP) basis, the income is reported in the fund where the related investments reside. A transfer is then recorded to transfer an amount equal to the interest earnings to the General Fund.

It is the City's policy to charge interest at month-end to those funds that have a negative average daily cash balance. In certain instances, City management has determined that the interest expense related to the fund should be allocated to the City's General Fund. On a budget basis, the interest expense is recorded in the General Fund. On a GAAP basis, the interest expense is recorded in the fund and then a transfer from the General Fund for an amount equal to the interest expense is made to the fund.

The types of investments made during the year were substantially the same as those held as of June 30, 2009. Fair value fluctuates with interest rates and increasing rates could cause fair value to decline below original cost. The Treasurer believes the liquidity in the portfolio is sufficient to meet cash flow requirements and to preclude the Treasurer from having to sell investments below original cost for that purpose. The earned yield, which includes net gains on investments sold, on all investments held by the Treasurer for the fiscal year ended June 30, 2009, was 2.57 percent.

**Investment Withdrawals**

In accordance with California Government Code, Section 27136, any requests from agencies to withdraw funds from the investment pool for purposes other than cash flow, such as for external investing, is subject to the consent of the Treasurer. Those requests are subject to the Treasurer's consideration of the stability and predictability of the pooled investment fund, or the adverse effect on the interests of the other depositors in the pooled fund. Withdrawals are at the value shown on the Office of the Controller's books as of the date of withdrawal.

**Interest Receivable**

Receivables on the statement of net assets consist of interest accrued on investments.

**Payables**

The payables consist of outstanding checks and distributions payable.

**Estimates**

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from the estimates.

**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE TREASURER AND TAX COLLECTOR INVESTMENT POOL**  
Notes to the Financial Statements (Continued)  
For the Year Ended June 30, 2009

**Note 2 – Investment Policy**

The City's investment policy addresses the soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The objectives of the policy, in order of priority, are safety, liquidity, and yield. The City has established a Treasury Oversight Committee as defined in the City Administrative Code section 10.80-3, comprised of various City officials, representatives of agencies with large cash balances, and members of the public, to monitor and review the management of public funds maintained in the investment pool in accordance with Sections 27130 to 27137 of the California Government Code. The Treasurer prepares and submits a comprehensive investment report to the Mayor, the Board of Supervisors, members of the Treasury Oversight Committee, and the Pool participants every month. The report covers the type of investments in the Pool, maturity dates, par value, actual cost, and fair value.

The City's investment policy also limits the purchase of negotiable certificates of deposit to the five largest domestic commercial banks that have demonstrated profitability in their most recent audited financial statements at the time of purchase. In addition, the investment policy requires that public time deposits be made only at approved financial institutions with at least one full service branch within the geographical boundaries of the City, and that the deposits yield a minimum of 0.125 percent higher than equal maturity U.S. Treasury instruments except in special circumstances specifically authorized by the Treasurer. The investment policy requires deposits in excess of the Federal Deposit Insurance Corporation (FDIC) deposit insurance limit to be fully collateralized with 110% of the type of collateral authorized in California Government Code, Section 53651 (a) through (i). The current FDIC insurance limit is \$250,000. The investment policy also requires that commercial bank deposits be made on a competitive basis with risk exposure based on financial statements and related information gathered on each individual bank.

The table on the following page identifies the investment types that are authorized by the City's investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk and concentration of credit risk. Although the California Government Code does not limit the amount of City funds that may be invested in federal agency instruments, the City's investment policy requires that investments in federal agencies should not exceed 60 percent of the total portfolio at the time of purchase. The investment policy also limits the maximum maturity of each type of agency instrument and does not permit the investment in medium term corporate notes. Investments held by the Treasurer during the year did not include repurchase agreements or reverse repurchase agreements.

**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE TREASURER AND TAX COLLECTOR INVESTMENT POOL**  
 Notes to the Financial Statements (Continued)  
 For the Year Ended June 30, 2009

**Note 2 – Investment Policy (Continued)**

**Table 1 - Types of Investments Authorized by the City's Investment Policy**

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury:			
Bills	5 years	None	None
Notes	5 years	None	None
Bonds	5 years	None	None
U.S. Agency Securities (all):			
Federal National Mortgage Association (Fannie Mae or FNMA)	5 years	60% *	n/a
Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC)	5 years	n/a	30% *
Federal Home Loan Bank (FHLB.)	270 days *	n/a	30% *
Federal Farm Credit Bank (FFCB.)	270 days *	n/a	30% *
Federal Agricultural Mortgage Association (Farmer Mac)	270 days *	n/a	10% *
Resolution Trust Funding Corporation (RTC)	270 days *	n/a	5% *
Tennessee Valley Authority (TVA)	270 days *	n/a	10% *
Commercial Paper	270 days	25%	10% *
Bankers Acceptances	180 days	40%	30% *
Temporary Liquidity Guarantee Program (TLGP)	5 years	30%	None
State and Local Government Agencies indebtedness	5 years	20%	None
Repurchase Agreements	30 days *	None	\$75 million
Reverse Repurchase Agreements	45 days *	20%	\$75 million
State of California Local Agency Investment Fund (LAIF)	n/a	Statutory	None
Bank and Thrift:			
Public Time Deposits	5 years	None	None
Public Demand Accounts	5 years	None	None
-Negotiable Certificates of Deposit	5 years	30%	None

\* Represents restriction on which the City's investment policy is more restrictive than the California Government Code.

**Note 3 – Investments**

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments; however, it is the practice of the Treasurer that all investments are insured, registered, or held by the Treasurer's custodial agent in the City's name.

**CITY AND COUNTY OF SAN FRANCISCO  
OFFICE OF THE TREASURER AND TAX COLLECTOR INVESTMENT POOL**

Notes to the Financial Statements (Continued)  
For the Year Ended June 30, 2009

**Note 3 – Investments (Continued)**

The California Government Code requires California banks and savings and loan associations to secure the City's deposits not covered by federal deposit insurance by pledging government securities as collateral. The fair value of pledged securities must equal at least 110 percent of the type of collateral authorized in California Government Code, Section 53651 (a) through (i) of the City's deposits. The collateral must be held at the pledging bank's trust department or another bank, acting as the pledging bank's agent, in the City's name. The investment policy states that mortgage-backed collateral will not be accepted. At June 30 2009, all of the banks with funds deposited by the Treasurer secured deposits with sufficient collateral.

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Treasurer manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. As of June 30, 2009, the investment pool had a weighted average maturity of 576 and its investment in floating rate securities was \$280.1million. These securities are tied to the London Interbank Offered Rate (LIBOR) index.

All security transactions including collateral for repurchase agreements entered into by the Treasurer is conducted on a delivery-versus-payment basis pursuant to approved custodial safekeeping agreements. Securities are held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts. Information about the sensitivity to the fair values of the Treasurer's investments to market interest rate fluctuations is provided by the following table, which shows the distribution of the Treasurer's investments by maturity.

**Table 2 - Types of Investments Authorized by the City's Investment Policy (in thousands)**

Investment Type	Interest Rates	Maturity	Par Value	Fair Value	Investment maturities (in months)			
					Under 1	1 - 6	6 - 12	12 - 60
U.S. Treasury Bills	0.13% - 1.50%	7/23/09 - 1/14/10	\$ 295,000	\$ 294,189	\$ 174,999	\$ 49,465	\$ 69,725	\$ -
U.S. Treasury Notes	0.34% - 3.86%	7/31/09 - 5/31/11	\$ 355,100	\$ 362,845	-	\$ 156,025	\$ 25,257	\$ 181,563
Fannie Mae Bonds	1.23% - 3.60%	2/11/11 - 5/6/13	\$ 370,000	\$ 372,213	-	-	-	\$ 372,213
Fannie Mae Multi-Step	1.25%	11/18/11	\$ 29,825	\$ 29,806	-	-	-	\$ 29,806
Fannie Mae Discount Notes	1.21%	8/17/09	\$ 50,000	\$ 49,647	-	\$ 49,647	-	-
Freddie Mac Bonds	1.97% - 3.00%	1/23/12 - 4/24/14	\$ 405,000	\$ 403,446	-	-	-	\$ 403,446
Freddie Mac Discount Notes	0.91%	1/8/10	\$ 20,000	\$ 19,900	-	-	\$ 19,900	-
FFCB Bonds	1.20% - 2.88%	10/13/10 - 1/28/14	\$ 90,225	\$ 90,281	-	-	-	\$ 90,281
FFCB Floater	0.77%	10/26/09	\$ 50,000	\$ 50,047	-	\$ 50,047	-	-
FHLB Multi-Step	0.50%	6/30/10	\$ 50,000	\$ 49,969	-	-	\$ 49,969	-
FHLB Discount Notes	0.11% - 0.12%	7/7/09 - 7/8/09	\$ 125,000	\$ 124,997	\$ 124,997	-	-	-
FHLB Floater	0.23% - 0.54%	11/23/09 - 12/28/05	\$ 179,500	\$ 179,637	-	\$ 179,637	-	-
TLGP Bonds	0.77% - 2.13%	1/7/11 - 12/26/12	\$ 551,000	\$ 554,562	-	-	-	\$ 554,562
Collateralized CD	1.20% - 2.52%	9/2/09 - 4/14/10	\$ 425,000	\$ 425,000	-	\$ 325,000	\$ 100,000	-
Public Time Deposits	1.00% - 3.90%	7/16/09 - 12/20/10	\$ 15,300	\$ 15,300	100	\$ 5,100	100	\$ 10,000
<b>Total Investments</b>			<b>\$ 3,010,950</b>	<b>\$ 3,021,839</b>	<b>\$ 300,096</b>	<b>\$ 814,921</b>	<b>\$ 264,951</b>	<b>\$ 1,641,871</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE TREASURER AND TAX COLLECTOR INVESTMENT POOL**  
 Notes to the Financial Statements (Continued)  
 For the Year Ended June 30, 2009

**Note 3 – Investments (Continued)**

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Table 3 shows the minimum rating required by the California Government Code and the City's investment policy and the actual rating as of June 30, 2009, for each investment type.

**Table 3 – Minimum Rating Required by the California  
 Government Code and Investment Policy**

Investment Type	Minimum Legal Rating	Standard & Poor's Rating	Total Investment Portfolio
U.S. Treasury Bills	N/A	A-1	9.7%
U.S. Treasury Notes	N/A	AAA	12.0%
U.S. Agencies Notes	N/A	AAA	45.3%
TLGP	N/A	AAA	18.4%
Collateralized CDs	N/A	N/A	14.1%
Public Time Deposits	N/A	N/A	0.5%

The City's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. U.S. Treasury and Agency securities are not subject to these single issuer limitations. As shown in Table 3 above, investments in U.S. Agencies that represent 5 percent or more of the total investments are in the following: FHLMC, FNMA, and FHLB. These investments represent 14.0 percent, 14.9 percent, and 11.7 percent, respectively.

**Note 4 – Safekeeping Items**

The Treasurer also holds for safekeeping bequests, trust funds, and lease deposits for other City departments. The bequests and trust funds consist of stocks and debentures. Those instruments are valued at par, cost, or fair value at the time of donation. The following table summarizes the bequests, trusts, and lease deposits held by the Treasurer.

**Table 4 – Bequest, Trusts, and Lease Deposits Held by the Treasurer**

Safekeeping Items	Amount
Bequests and Trusts:	
San Francisco General Hospital:	
Augusto Brunetti Bequest	\$ 166
Laguna Honda Hospital:	
William L. Lenahan	203,908
Marie Lewis Gift Fund	72,336
Hazel I. Putnam	1,227
Miscellaneous Gift Fund	105,370
Recreation and Park Department:	
Gilliland Bequest	182,364
Mildred Marting Bequest	7,182
Department of Human Services:	
Mary Arcuri Account	2,353
Federal Home Loan Bequest	392
Total Bequest and Trust Funds	575,298
Lease Deposits	
Total Safekeeping Items	\$ 24,298,624
	<u>\$ 24,873,922</u>



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**MACIAS GINI & O'CONNELL LLP**  
Certified Public Accountants & Management Consultants

**Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor Gavin Newsom  
The Honorable Members of the Board of Supervisors  
City and County of San Francisco

We have audited the financial statements of the Investment Pool administered by the Office of the Treasurer and Tax Collector (Treasury) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

In planning and performing our audit, we considered the Treasury's internal control over financial reporting as it pertains to the Investment Pool's activities, as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Treasury's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Treasury's internal control over financial reporting.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Investment Pool's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Investment Pool's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Treasury's management, Treasury Oversight Committee, the Board of Supervisors, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Macias Gini & Company LLP*

Certified Public Accountants  
Walnut Creek, California

December 23, 2009



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**MACIAS GINI & O'CONNELL LLP**  
Certified Public Accountants & Management Consultants

**Independent Accountant's Report  
on Applying Agreed-Upon Procedures**

The Honorable Mayor Gavin Newsom  
The Honorable Members of the Board of Supervisors  
City and County of San Francisco

We have performed the procedures enumerated below, which were agreed to by the Office of the Treasurer and Tax Collector (Treasury) of the City and County of San Francisco (City), solely to assist the specified parties in evaluating the Treasury's compliance with the California Government Code (Code) Sections 27130 through 27137, which addresses requirements of the Treasury Oversight Committee (Committee), for the year ended June 30, 2009. Treasury's management and the Committee are responsible for the Treasury's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our observations and findings are summarized as follows:

1. We obtained a listing of the current members of the Committee to determine whether the members meet the requirements outlined in Article 6, Section 27132 of the Code.

**Finding:** No compliance exceptions were noted as a result of our procedures.

2. We obtained confirmations from the Committee members that they are in compliance with Article 6, Section 27132.1 through 27132.3 of the Code.

**Finding:** No compliance exceptions were noted as a result of our procedures.

3. We obtained the Investment Policy and verified that it was reviewed by the Committee and included authorized investments; maximum security term; brokers and dealers selection; limits on the receipt of gifts; investment report; cost calculation and apportionment policy; deposit terms and conditions; and funds withdrawal criteria pursuant to Article 6, Section 27133 of the Code.

**Finding:** No compliance exceptions were noted as a result of our procedures.

4. We verified that City's funds were used to pay for the costs incurred to comply with the investment compliance requirements pursuant to Article 6, Section 27135 of the Code.

**Finding:** No compliance exceptions were noted as a result of our procedures.

5. We read the City's withdrawal policy and performed tests to verify the Treasury complied with this policy pursuant to Article 6, Section 27136 of the Code. The City's withdrawal policy as stated in the Investment Policy is as follows:

The Treasurer will honor all requests to withdraw funds for normal cash flow purposes that are approved by the San Francisco Controller. Any requests to withdraw funds for purposes other than cash flow, such as for external investing, shall be subject to the consent of the Treasurer. In accordance with California Government Code Sections 27136 et seq. and 27133(h) et seq., such requests for withdrawals must first be made in writing to the Treasurer. These requests are subject to the Treasurer's consideration of the stability and predictability of the Pooled Investment Fund, or the adverse effect on the interests of the other depositors in the Pooled Investment Fund. Any withdrawal for such purposes shall be at the value shown on the Controller's books as of the date of withdrawal.

We tested 25 withdrawals during the period from July 1, 2008 through June 30, 2009 to determine the City's compliance with its withdrawal policy.

**Finding:** No compliance exceptions were noted as a result of our procedures.

6. We read the Committee's quarterly minutes to determine that the Committee was not directing individual investment decisions, selecting individual investment advisors, brokers or dealers or impinging on the day-to-day operations of the City's Treasury pursuant to Article 6, Section 27137 of the Code.

**Finding:** No compliance exceptions were noted as a result of our procedures.

7. We read the Investment Policy to verify that it states "the Pooled Investment Fund (Fund) shall be prudently invested to meet the specific objectives of (1) Safety of Principal, (2) Liquidity, (3) Yield and (4) Public Trust."

**Finding:** No compliance exceptions were noted as a result of our procedures.

8. We selected the June 2009 investment listing and compared the investments listed to the types of investments authorized per the Code Sections 53600 et seq.

**Finding:** No compliance exceptions were noted as a result of our procedures.

9. We recalculated the value of the investments (fair value plus accrued interest) for the investments listed in the June 30, 2009 investment listing. We then summarized the investments by issuer and by investment type and computed percentage of each to the total portfolio. We compared those percentages to the limits stated in the Investment Policy to determine the City's compliance. In addition, we summarized investments by type and days to maturity and compared the number of days to the limits stated in the Policy to determine the City's compliance.

**Finding:** No compliance exceptions were noted as a result of our procedures.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information of the Treasury's management, Treasury Oversight Committee, the Board of Supervisors, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

*Macias Gini & Company LLP*  
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December 23, 2009





